

The American Catalog Mailers Association, Inc. (ACMA) is pleased to provide these Comments pursuant to Commission Order No. 3673 governing the review of the modern system of ratemenaing following ten years since the passage of the Postal Accountability and Enhancement Act (PAEA). ACMA is providing these comments as well as participating in a Joint Party filing from DMA et al. These remarks are to be read in conjunction to the DMA et al. filing and serve to amplify or expand on matters of importance to catalog mailers and their suppliers.

II. OBJECTIVES

Following Order No. 3673 and amplifying on comments made in DMA et al., ACMA offers these additional observations on the Objectives set forth in the PAEA, as enhanced by the Factors.

A. Objective 1: To maximize incentives to reduce costs and increase efficiency.¹

The focus has been and should be Lowest Delivered Cost. In this hypercompetitive world it is unreasonable to believe mailers will mail aggressively using an inefficient system. For some years the Service, with the approval of its regulator, has workshared parts of mail processing or logistics that can be done more efficiently elsewhere. Worksharing should continue to be used aggressively where it lowers the total cost incurred by the postal system.

As to whether workshare discounts should equate to 100 percent of the costs avoided, or to something above or below that, ACMA generally believes that the greatest incentives should be offered that are consistent with USPS financial health. However, as ACMA has raised with the Commission in the past, the accuracy of the accepted postal cost accounting system is uncertain; sometimes results returned do not appear to be meaningful. Given this limitation in the accepted cost accounting system, caution seems warranted when approaching 100 percent passthroughs. Moreover, since changes in workflow for both the Service and its supply chain partners necessarily

¹ See title 39 U.S.C. section 3622(b) for all Objectives and Factors.

involve significant effort and investment, keeping workshare discounts stable is important to allow recovery of these investments and effort. Setting discounts at the upper limit only to have them change annually by significant magnitude is not helpful to businesses trying to operate with a degree of financial stability and predictability. The volatility of passthroughs should be considered when determining how close to 100 percent a workshare discount is set.

B. Objective 2: To create predictability and stability in rates.

Compared to the system in place prior to the PAEA, the new system has achieved both predictability and stability. Inflation rates are well documented and generally reasonably accurately forecasted. They tend to change slowly. Prior to 2007, postal rates were highly volatile and unpredictable. Wall Street and the business community generally take a dim view of unexpected deviations from financial plans and proformas. Significant cost centers (such as postage represents for catalog mailers) that are unexpectedly over budget create enormous pressures on companies and their financial partners. The occasional surprises would cause business managers to provide a margin of error against having their budgets blown out by higher than expected rate hikes.

C. Objective 3: To maintain high quality service standards established under section 3691.

Unlike some mailers, catalogers can generally accept a wide variety of service standards and are willing to consider any change to service standards that materially

reduces cost. However, catalogers must know these standards in advance. And when service standards are to change, catalog mailers need to be given adequate time to adjust company operations and marketing plans to the new standard.

For catalog mailers, the premium is on knowing service standards in advance and then high achievement of on time service so all other aspects of a company's marketing plan can be synchronized with mailing activities.

The Postal Service's investment in Informed Visibility seems to be on the cusp of providing significant and meaningful near real time data on service performance, allowing not only the monitoring of service performance on a real time basis and Postal Service intervention to deliver at risk mail by the stated standard but also the potential to make on-the-fly adjustments when weather or other uncontrollable events place service performance at risk.

D. Objective 4: To allow the Postal Service pricing flexibility.

Work remains to increase the use of incentives for growth; there have been only a few Market Dominant NSAs. Some envisioned the Postal Service would negotiate functional volume discounts on a routine basis as is being done in Competitive products. More must be done to take advantage of existing opportunities for growth incentives under the PAEA.

E. Objective 5: To assure adequate revenues, including retained earnings, to maintain financial stability.

Some may be tempted to point to the Service's Balance Sheet and current lack of statutory borrowing authority as evidence that the PAEA is not providing adequate revenues. However, this is too simplistic. These past ten years have had inflation rates at unprecedented, historic lows. That the Postal Service has been close to breakeven during this period is surely the most difficult test, as we can reasonably expect the CPI-U to be significantly higher in the next ten years.

Others might posit that the CPI-U is not the right index to use in holding the Postal Service to a revenue cap. While ACMA might be willing to consider alternatives that more closely reflect postal cost drivers, the CPI-U is a widely reported and generally understood measure of inflation. More importantly, it is the measure most mailers are held accountable to in their pricing decisions *with their customers*. B2C marketers must be mindful of this index as it often determines the upward limitation on pricing decisions because it also limits consumer spending power. Moreover, it governs the general price changes of direct and indirect substitute products, whether available through the mail or elsewhere.

As to the Service's lack of additional borrowing authority, it is important to remember that the vast majority of this debt was incurred in making unreasonable accelerated prepayments into the retiree health benefit fund. Had these unusual payments not been required, the Postal Service would have had significant resources to invest in capital projects during this period of extremely low inflation.

We are concerned that the Postal Service has not had the ability to invest in capital projects as fully as it may have wished, but we do expect this to be corrected should Congress move reform legislation that currently includes a one-time 2.15% across-the-board rate increase combined with more typical CPI-U limits over the next ten years. Provided the USPS continues to carefully manage its expense profile and making assumptions for reasonable stability and growth of certain postal products while profitable First Class mail continues its slow decline, we see no reason that the USPS cannot be viable, even successful, over the next decade.

F. Objective 6: To reduce the administrative burden and increase the transparency of the ratemaking process.

ACMA members greatly appreciate the lower costs of ratesetting today compared to the system it replaced, and have been satisfied with the transparency of the process. While work remains to simplify the complexity of rates generally and postal regulations, this is outside of the scope of this review.

G. Objective 7: To enhance mail security and deter terrorism.

ACMA does not have adequate details to objectively comment on this Objective but appreciates the sanctity and security of mail is an important enabler of confidence in the mail system.

H. Objective 8: To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

ACMA members continue to be troubled by the reported cost coverage results for some of its postal products given the enormous investment in automation and the many changes in preparation and presentment we have made in service to better efficiency. As covered in more detail in a variety of Comments to the ACR, ACMA remains concerned that cost drivers are not fully understood or properly accounted for. Nevertheless, we remain committed to lowering the cost of handling flat shaped mail, which remains a work in process.

I. Objective 9: To allocate the total institutional costs of the Postal Service appropriately between market dominant and competitive products.

ACMA believes the actual contribution from Competitive Product in the ten years since enactment of PAEA while allowing for the growth in these competitive products speaks directly to the adequacy of contribution to institutional costs by products where the USPS has direct competitors.

III. THE COMMISSION HAS ONGOING POWER TO ADDRESS THESE MATTERS

In its wisdom, the PAEA provided the opportunity for the Postal Regulatory Commission to review rates following ten years of experience with the modern system of ratemaking and at anytime thereafter as the Commission deems it necessary. This

argues for the Commission to be circumspect in making large sweeping changes to a system that has brought a lot of positives to the mailing community.

IV. CONCLUSION

The PAEA brought many changes to the postal landscape, and most of them have been very good for the Postal Service and its customers. ACMA does not believe that wholesale abandonment of a price cap system is either warranted or wise. Under the PAEA, the Postal Service has demonstrated significant cost side discipline. Other than concerns about tight liquidity, due to the predictability and stability of rates, mailers and their suppliers have been able to invest in mail and its efficiency. Since Congress seems inclined to act to reform the Congressionally-imposed cost overhangs and this may not occur prior to the Commission issuing its decisions in the instant docket, and especially since the Commission can reopen this issue at virtually any time of its choosing, ACMA believes the Commission should be cautious and conservative in any change it makes.

Respectfully submitted,

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